Risk and financial strategy ip5 creative writing examples

Business, Company

Abstract

Financial strategy formulation and implementation involve substantial planning, analysis and forecasting. In the dispensation of that duty, managers and employees alike must consider risk. Risk refers to the possibilities of occurrence of events whose results ordinarily cause losses of a financial nature. Interestingly, risk is not predictable or certain. This makes factoring risk in the financial strategy problematic. In addition, risk in itself is a broad term that could be manifested in different ways. Some manifestation of risk includes business risks, credit risks, interest rate risks, political risks, default risks and reinvestment risks. The uncertain nature of risks makes it fundamentally difficult and problematic. However, industry analysts have come up with various models of predicting risks and identified options available to remedy the possible risks. Another typical approach employed involves cushioning of the firm from likely effects of risks through the development of options and models that firms could resort to on the occurrence of risks.

Risk and Financial Strategy IP5

Introduction

Strategy formulation and implementation would ordinarily be faced with a number of impediments. The main problem arises from the nature of uncertainties that companies often face. Due to industrial and market uncertainties, firms must position themselves strategically. One of the courses of uncertainties is risk. Risk refers to the possibilities of events occurring that would cause a financial loss to the firm. Risks are of several variants including the following business, credit, interest rate, default, political and reinvestment risk.

Business risk

This refers to risks the firms are exposed to by virtue of doing business. The engagement in transactions on a day to day basis portends a lot of risks for firms. Ideally, business risk is a broad term that captures all risks inherent in various businesses. The risks could be broadly perceived in terms of occurrence of fire, bankruptcy, slow movement of goods or obsolescence, among other risks. Corporate financial strategy has to consider possible business risks and undertake mechanisms that would cushion them from possible losses.

Credit risk

Credit risk refers to risks inherent in credit transactions. To maximize on profits, businesses operate on credit so as to encourage sales. In engaging in these transactions, businesses face a number of situations and events such as failure by credit consumers to pay their debts. Strategy formulation incorporates credit risk in that the cascading effects of credit risk have to be incorporated and taken into consideration. Firms must position themselves in a position in which credit risk is on the minimum.

Interest rate risk

The interest rate risk refers to risks that come about due to fluctuations in interest rates. Interest rates determine the inflation rates in businesses. In some instances, interest rates become high leading to inflation. Prices of goods become so high that few buyers are able to afford. This negatively impacts on the business. Such situations need to be prompted by the firm's strategists.

Political risks

Political risk is a broad term that captures the physical state of a market of operation. As such, political risk refers to the security and social state of a market of operation. The risk usually lies in the possibility of disruption of the peace and stability of a region or state. Political risks, therefore, relates to the risks inherent in political instability such as rebellions, demonstrations, among other forms of political activity. In financial strategy, political temperatures and temperament must be considered and factored in as a matter of fact.

Default risk

Default risk refers to the risk that firms would be unable to pay back the loans and financial obligations. Ordinarily, firms take loan or financial facilities so as to trade and earn profits. The rational is that the profits would be used to support the going concern of the firm and meet its financial obligations. In some instances, businesses are not able to support there on financial requirements. They end up defaulting on other financial obligations to external parties. This is referred to as default risk. Strategy formulation has to cover such aspects. The default risk ought to be factored in and requisite measures taken in mitigation of possible default risk occurring.

Reinvestment risk

Reinvestment risk refers to the risk in financial instruments that depend on market interest rates. Ordinarily, the financial instrument’s cashflows would be reinvested at the prevailing interest rates. Interest rates continually fluctuate. The risk, therefore, is that the reinvestment time could coincide with lower interest rates making the venture unprofitable. Financial strategy necessarily considers the effects resultant of reinvestment risks. It remains essential to enter into financial contracts that limit the risks.

Conclusion

The concept of risk remains an abstract topic whose solution is not obvious. Strategy design and implementation should factor elements of risks. Businesses need to evaluate factors that may negatively impact on the firms’ objectives of maximizing profits and minimizing costs. It is also important for businesses to consider all aspects of risks in strategy development.

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